

# Building a Better Arizona

March 4, 2009

Mr. Speaker, Mr. President, Members, distinguished guests and my fellow Arizonans, let me begin by expressing my gratitude to the many friends, supporters, and political leaders from both major parties who have so generously offered me their prayers and encouragement since I became Governor and during the weeks leading up to my swearing in.

Over the last couple of months, I have wondered, sometimes in quiet prayer, why the good Lord has called us to our positions of enormous responsibility and humbled us with the public trust at this very critical time in history.

My friends, the answer has become more and more clear to me each and every day since becoming Governor, and I am confident that tonight and in the days and weeks ahead our collective mission will become more clear to all of you.

In times of crisis, it is important that we reflect on the wisdom and courage of those who came before us. As I consider our path to prosperity, building a better Arizona, and a solid foundation for the future, names like Barry Goldwater, Carl Hayden, Bob Stump, Mo Udall, and John Rhodes echo through my thoughts. You can vividly see their leadership still today in the infrastructure and energy that fundamentally sustain our state: the long-lasting life blood of the CAP canal, the wealth creation of our copper mines, the Roosevelt Dam supporting world-class agriculture and ranching and the world's best aerospace and technology companies.

Those great Arizona leaders considered more than just their 'today', they built the foundations for the wealth of 'tomorrow' that we inherited. They shared a trait also found in some of today's best leaders—the ability and the courage to speak the truth. If you doubt the capacity of the people of Arizona to “handle the truth” let me help you with that. Arizonans cannot only handle the truth -- they demand it, and they demand that we “tell it to them straight”, and here is the truth: Arizona is in a financial crisis.

We have to face the reality that between July 1<sup>st</sup> of this year and June 30<sup>th</sup> of 2010 state government will run a budget deficit of roughly \$3 billion, and as we meet here tonight, we cannot expect State revenues to improve until 2012 at the very earliest.

This is hard news to take, believe me it has caused me many sleepless nights. What makes matters even worse is that years' of ill-conceived and permanent spending commitments guarantee that the hole in which we find ourselves today will grow deeper tomorrow.

The truth is, we cannot afford the size of government we now have, and even a slowly recovering economy will not fix the problem. If you begin with a reasonable revenue estimate, add in the federal stimulus dollars, and continue our current rate of spending by 2014 the State of Arizona would have an accumulated budget deficit of \$13 billion — \$13 billion!!

There are some in state government who have tried to shrug off this news. They have tried to comfort themselves and misguide the rest of us by claiming that Arizona is no worse off than the rest of the states. Members, that is just not true.

The truth is we have inherited one of the largest budget deficits per capita of any state in the United States. The truth is, the State of Arizona is spending billions more than it brings in, and unlike our friends in Washington, DC, we can't just print more money. We have to make the hard decisions to match revenues with spending. They have to balance, and WE have to strike that balance.

Arizona's fiscal crisis is firmly planted in three key problems that are fundamental and can no longer be ignored, delayed, or passed along to future Governors and Legislatures.

The first problem:

The State of Arizona made bad decisions to fund permanent spending commitments with short-term one-time revenues that were not sustainable. For example, the Rainy Day Fund. All \$750 million has been drained, and most was spent well before the worst of the

economic downturn.

In roughly the same time period the state borrowed more than \$650 million from our K-12 system to help balance the books. We have sold and then leased-back our own state prisons to generate one-time cash that will take 20 years to pay for.

To balance our last two General Fund budgets the State depended on \$750 million in what are known as "Fund Sweeps". A "Fund Sweep" is a government term that means taking money that was intended for one purpose in order to pay for another purpose that we really could not afford.

Again, these were one-time fixes; band-aids that crippled the ability of the funds to operate and that provided false hope that the State could keep up with its permanent spending habit.

One year ago a legislative leader said, and I quote, "Borrowing allows spending to continue in excess of available revenue. Using the rainy day fund and other cash resources will work only to balance the current fiscal year pushing the structural deficit into the next fiscal year and we need to put this fire out now before it becomes a complete and utter disaster."

You all know who said that a year ago because he's been saying it for years! President Bob Burns was right about the structural deficit then, and he is right about it today!

Our second fundamental problem relates to the permanent, inflexible spending and taxes that are locked into the Voter Protection Act, also known as Proposition 105, which was passed in 1998.

The underlying concept of Prop 105 is well-intended, but times have changed and it makes no sense to have large sums available for program enhancements when we can't afford the core services. But Prop 105, specifically as it applies to spending, not policies, paints state government into a corner where for all practical purposes the only spending cuts available to the Legislature and the Governor are in the critical areas of education, public safety and vital services to our state's most at-risk population.

Today, more than \$3 billion are spent and will grow with little flexibility. One example, \$20 million is mandated this year to stop urban sprawl. NEWS FLASH – we do not have an urban sprawl problem this year!!

Ladies and gentlemen, Prop 105 was not designed, nor do I believe it was the intent of Arizona voters, to starve our fundamental, core services and to hold us back from our future.

Here's our third fundamental problem. We have an antiquated, backwards-looking tax structure that penalizes success, hamstringing entrepreneurs in creating new jobs or re-locating to our state and collects revenues in a fashion more suited to the 1960's and the 1970's.

So now you have heard the truth about the bad news we face. What's the good news?

The good news is that there is still time to solve this problem -- IF we act responsibly. We are here to apply the accumulated lessons of our lives and faiths and to summon the courage to act. Now is the time and this is the place to honor Arizona's legacy, to unify and defend our citizens, and to begin building a better Arizona. I now call upon you, the honorable Representatives and Senators who have been entrusted by the people of your districts and our state to build a recovery plan that is equally supported by five essential proposals that are crucial to building a better Arizona.

First, we must prevent Arizona's fiscal crisis from occurring again by enacting structural budget reform. I ask you to reform the rainy day fund so that it will be available for true rainy days, not just to close budget deals or to prop-up new permanent spending with false hope.

The rainy day fund is not a legislative or executive branch slush fund, it is meant to protect our citizens in a true emergency. Specifically, I ask that you double the maximum size of the fund and to restrict its use with a pre-designed formula that makes sense.

Our structural budget reforms should also be designed to restrict and limit routine raids on fee-based funds also called "Fund Sweeps". Occasionally, some sweeps may be justified and perfectly

legal, but when users are required to pay fees for required government services they should have the confidence to know that if they have paid the fee they will receive the service. I have heard of fund sweeps described as a homeowner who writes a check for the utility bill only to have the government intercept the check in the mail before it reaches the power company. Guess what happens, the power gets shut off. This cannot continue. That tool must be restricted just as we restrict the use of rainy day funds.

Another part of our structural budget reform should be a commitment to a fair and honest revenue estimation process.

The truth is we will end the current fiscal year not with 8% revenue growth but with a 12% revenue decline. It's astonishing that our latest budgets were built on the most optimistic revenue projections at a time when nearly every economic forecaster was predicting a downturn. Why were they ignored? Because it's easier to build two years of spending on flawed revenue projections than it is to make tough decisions.

I commit that our process will be fair. It will truly be the starting point of a dependable honest accounting based more on economics and less on politics. I look forward to discussing your ideas on structural budget reform as we seek to prevent another budget crisis in the future.

Second, we must stop adding or creating programs we cannot pay for. I propose you send to the voters, for their approval a measure to improve the Voter Protection Act, and to allow updates to programs that impact the General Fund budget. In these extraordinary times we cannot be handcuffed by the noble ideas from a different era. We cannot be fighting urban sprawl when real people are losing their jobs. In times of true crisis it is unacceptable to leave public safety, education, and core health services as the last ones bearing all the weight.

My third proposal reflects the reality that the budget we have inherited will almost certainly require further spending cuts.

No one is more acutely aware than I of the depth and the pain of these budget cuts. These reductions have real impacts on real people, on real families and it is an outrage that poor planning and

budget neglect have created false hope. We end up victimizing the people we SHOULD be caring for the most.

That is a tragedy and it is wrong!

To that end, I have directed my Cabinet to spend the necessary hours and days with their budget staffs and senior administrators to evaluate the impacts of possible cuts in 5% increments up to 20%. Members, by 2010 we need to arrive at accumulated cuts and other program changes that reduce the General Fund obligations by \$1 billion dollars.

It will be a disservice to future generations if we fail to put our house in order. Together, we have already reduced spending by half-a-billion dollars in my first days in office—the largest spending cuts by any Governor - EVER. So, more cuts will be painful, but they must be done. Make no mistake a budget without further reductions will not receive my signature.

And now my fourth proposal—reform and modernize our state tax structure. Study after study has been conducted only to sit on a bookshelf and collect dust. Our tax structure must not hold back job creation and capital formation. My staff and I have already been in consultation with the Speaker and the President to create positive tax reform. We need a tax structure that promotes job growth, job sustainability, investment in Arizona, and revenue stability.

Therefore, I call for a tax reduction that will begin in 2012, and we need to progressively build a more friendly tax code that attracts investment capital and helps create high wage, sustainable jobs. Give me a tax cut that equips us with the tools to build a better Arizona.

Arizona's economic recovery won't happen overnight, but tax reform is the only way that is sure to support and grow our Arizona employers who have stuck it out with us. It also brings new ones from other states and countries and it must be our highest priority for the future. I have no greater focus than to grow jobs in Arizona and if you give us the tools, we will deliver.

For me, my fifth and final proposal is without question the most difficult of all. Some of you here in this chamber tonight probably

think I have been an elected official since state-hood. Not quite. In 1966, I was a hopeful young lady in my 20's from Southern California. California was a beautiful and exciting place to be and my family felt blessed that God had placed us in one of the most vibrant places – in the greatest nation on earth. That year, a movie actor was elected Governor of California. His name was Ronald Reagan. He had inspired Californians with his commitment to individual freedom with his emphasis on public safety, and with his traditional values and fiscal conservatism that have encouraged and sustained us through history. Within his first several weeks of office, Governor Reagan exposed the truth and consequences of years of budget neglect and poor decisions.

You see, California's budget had been built on a house of cards, a Ponzi scheme designed to let politicians take credit for spending now and force others to worry about the consequences later. Vast amounts of debt and accounting gimmicks coupled with a huge expansion in permanent spending and government programs had left that productive state and its new Governor with a financial crisis a state budget near collapse.

Now, I am not Ronald Reagan, and thankfully we are not California. But this picture looks and sounds familiar. No one can challenge the conservative credentials of perhaps one of the greatest presidents of the 20<sup>th</sup> Century. This great man of great faith was a true conservative. He confronted the insurmountable state budget crisis by proposing and ratifying a tax increase.

I will match my 27 years of anti-tax, conservative credentials with anyone in public office. But as a very last resort, after considering every other option, and after doing a truthful and honest assessment of our economic situation, we must be willing to consider the passage of a temporary tax increase – approved by you and signed by me – or approved by the voters at a special election, of roughly \$1 billion dollars per year.

This temporary increase should be dedicated to preserving our education systems, our critical public safety commitments, and our essential public health services necessary for the survival of our state's most at-risk citizens. I do not propose these steps lightly, and you would not hear me utter these words if I did not firmly and

confidently believe that it is absolutely necessary.

We cannot balance this budget on cuts alone, nor on taxes alone, nor on Federal Stimulus dollars alone. We cannot place all of the burden on our children and their schools. We cannot place all of the burden on the parents that need day care so they can go to work and stay off welfare. We cannot leave the sick on the streets alone to fend for themselves only to overload our hospitals and our jails. We cannot be penny wise and pound-foolish.

So there it is, five integrated and essential proposals to rescue our state budget from financial collapse and begin building a better Arizona. This is a multi-year problem, and these five proposals focus our state on the long term. We must stop considering only a 2010 budget deal and we must start considering a multi-year fix that secures our future.

Before I go any further, I want to touch on the federal stimulus package. Arizona may receive over \$4 billion from Washington. Not all of it helps to fix our state budget. It will reduce our state deficit by about \$1 billion dollars a year for three years, and we are going to use it. It is not the complete solution to our problems; it will certainly not balance our budget, but it does help.

To that end, I ask that you quickly, and no later than March 14<sup>th</sup>, send me legislation that authorizes about \$20 million dollars in federal childcare dollars that provide a 'hand up not a hand out'. This is assistance for working parents that won't be working without childcare; 20,000 children are depending on us.

Members, over the next several weeks and months we need to stay focused on fixing this financial crisis. As of today please, do not send me any bills that do not provide a comprehensive, long-term solution to our State's budget problems. If the bill is a true emergency we will deal with it.

To my friends and respected colleagues on the right I will not accept a budget that eats the seed corn that must be sown in the fields of our future. We all work hard for our children, and for their children. They must be safe in their neighborhoods and communities, and we cannot settle for an education system that merely prepares them to get a job. We must ensure that our education system prepares



them to excel – in work, in business, in service to their community, and to our country. Let me make this point abundantly clear -I will not sign a budget that relies primarily on debt and federal stimulus dollars, and I will not sign a budget that relies primarily on unrealistic spending cuts.

To my friends and respected colleagues on the left, I will not accept a budget just like last year's or the years before that builds an unsustainable budget primarily with debt and superficial gimmicks and that will only have to be revised and updated this year or next. If you attempt to use nothing but more debt and gimmicks, you condemn us to short term collapse, and I will veto that type of budget. I implore you to focus on the impacts of today's decisions on the budget for 2011, 12, 13 and beyond.

All of us, Republicans and Democrats, alike must set aside our differences in this time of crisis. All of us have to make sacrifices, and only by working together can we build a better Arizona. We must resist the temptation to fall back on rhetoric and old, discredited fixes for our budget problems. We must have the courage and determination to place workers, employers, families, retirees, students, and young children ahead of politics.

My fellow Arizonans this is a multi-year problem that must receive a multi-year and comprehensive solution. In a world where the specter of a growing and more dominating federal government looms large, I ask that you join me in creating a Grand Canyon State that serves as a beacon of prosperity, opportunity, and freedom. It is time to get the job done. I have faith in each of you that together we can achieve this difficult task.

May God bless you and your families and may He bless us with the courage and the wisdom to act.

Thank you.